



100 South Jefferson Road
Whippany, New Jersey 07981
Phone: 973/884-8085
E-Mail: JRICKER@NECA.ORG

John A. Ricker
Executive Director
Universal Service Programs Support

RECEIVED

DEC - 2 1998

December 2, 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Magalie Roman Salas
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

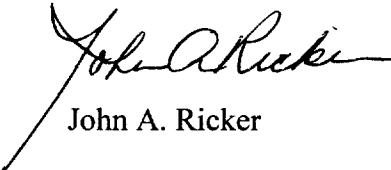
Re: TRS Fund Administration
Financial Statements
CC Docket No. 90-571

Dear Ms. Salas:

Enclosed herewith are the original and three (3) copies of the financial statements of the TRS fund for the fifth year of its operation (from August 1, 1997 through July 31, 1998), together with an auditor's report from an independent certified accounting firm, filed in accordance with 47 C.F.R. § 64.604(c)(4)(iii)(D) and (H).

Please acknowledge receipt of this letter and filing by affixing a notation on the duplicate copy of this letter which is enclosed and remitting the duplicate to the bearer.

Very truly yours,



John A. Ricker

Enclosures

cc: J. Keegan (w/enclosure)
K. Ackerman (w/enclosure)
A. Gomez (w/enclosure)
K. Schroeder (w/enclosure)
D. Sabourin (w/enclosure)
J. Lande (w/enclosure)
J. Rodriguez (w/enclosure)
ITS (w/enclosure)

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100 South Jefferson Road
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201/884-8085
e mail- JRICKER@NECA.ORG

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John A. Ricker
Director
TRS Administration

December 2, 1997

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: TRS Fund Administration
Financial Statements
CC Docket No. 90-571

Dear Ms. Salas:

Enclosed herewith are the original and three (3) copies of the financial statements of the TRS fund for the fourth year of its operation (from August 1, 1996 through July 1, 1997), together with an auditor's report from an independent certified accounting firm, filed in accordance with 47 C.F.R. § 64.604(c)(4)(iii)(D) and (H).

Please acknowledge receipt of this letter and filing by affixing a notation on the duplicate copy of this letter which is enclosed and remitting the duplicate to the bearer.

Very truly yours,

John A. Ricker

Enclosures

cc: J. Keegan (w/enclosure)
K. Ackerman (w/enclosure)
G. Matise (w/enclosure)
A. Firth (w/enclosure)
J. Lande (w/enclosure)
J. Rodriguez (w/enclosure)
K. Monteith (w/enclosure)
ITS (w/enclosure)

ARTHUR ANDERSEN LLP

National Exchange Carrier Association Inc.

Financial Statements Of The Telecommunications

Relay Services Fund For The Fiscal Years Ended July 31, 1998 And 1997

Together with

Report of Independent Public Accountants

ARTHUR ANDERSEN LLP

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of the

National Exchange Carrier Association, Inc.:

We have audited the accompanying statements of assets, liabilities and fund balance of the Telecommunications Relay Services Fund ("TRS Fund" or "TRS") administered by the National Exchange Carrier Association, Inc. ("NECA") as of July 31, 1998 and 1997, and the related statements of changes in fund balance and cash flows for the fiscal years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund balance of the TRS Fund administered by NECA as of July 31, 1998 and 1997, and the changes in its fund balance and its cash flows for the fiscal years then ended in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Roseland, New Jersey
November 25, 1998

TELECOMMUNICATIONS RELAY SERVICES FUND

STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE

AS OF JULY 31, 1998 AND 1997

(in thousands)

<u>ASSETS</u>	<u>1998</u>	<u>1997</u>
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	\$25,467	\$16,914
Receivable from contributors (Note 1)	1,567	1,775
Interest receivable	4	29
Total assets	<u>\$27,038</u>	<u>\$18,718</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
LIABILITIES:		
Payable to TRS service providers (Note 1 and 6)	\$6,329	\$11,853
Accounts payable and accrued expenses	41	27
Total liabilities	6,370	11,880
 Fund balance (Notes 1 and 6)	 <u>20,668</u>	 <u>6,838</u>
Total liabilities and fund balance	<u>\$27,038</u>	<u>\$18,718</u>

The accompanying notes are an integral part of these statements.

TELECOMMUNICATIONS RELAY SERVICES FUND

STATEMENTS OF CHANGES IN FUND BALANCE

FOR THE FISCAL YEARS ENDED JULY 31, 1998 AND 1997

(in thousands)

	<u>1998</u>	<u>1997</u>
ADDITIONS TO FUND BALANCE:		
Amounts billed to contributors (Note 1)	\$49,577	\$38,313
Interest income (Note 2)	<u>1,291</u>	<u>514</u>
Total additions	<u>50,868</u>	<u>38,827</u>
DEDUCTIONS FROM FUND BALANCE:		
Amounts paid and due to providers (Note 1)	36,682	37,880
Administrative costs (Note 3)	<u>356</u>	<u>339</u>
Total deductions	<u>37,038</u>	<u>38,219</u>
Net change in fund balance	13,830	608
FUND BALANCE, beginning of period	<u>6,838</u>	<u>6,230</u>
FUND BALANCE, end of period	<u>\$20,668</u>	<u>\$6,838</u>

The accompanying notes are an integral part of these statements.

TELECOMMUNICATIONS RELAY SERVICES FUND

STATEMENTS OF CASH FLOWS

FOR THE FISCAL YEARS ENDED JULY 31, 1998 AND 1997

(in thousands)

	<u>1998</u>	<u>1997</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from contributors	\$49,785	\$38,086
Cash paid to TRS service providers	(42,206)	(34,089)
Cash paid for administrative costs	(342)	(313)
Interest received	1,316	491
Net cash provided by operating activities	8,553	4,175
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	16,914	12,739
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$25,467</u>	<u>\$16,914</u>
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Changes in operating assets and liabilities-		
Decrease (increase) in receivable from contributors	\$208	(\$227)
Decrease (Increase) in interest receivable	25	(23)
Increase in fund balance	13,830	608
(Decrease) increase in payable to TRS service providers	(5,524)	3,791
Increase in accounts payable and accrued expenses	14	26
Net cash provided by operating activities	<u>\$8,553</u>	<u>\$4,175</u>

The accompanying notes are an integral part of these statements.

TELECOMMUNICATIONS RELAY SERVICES FUND

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JULY 31, 1998 AND 1997

(1) GENERAL:

The Americans With Disabilities Act directed the Federal Communications Commission ("FCC") to establish regulations requiring nationwide telecommunications relay services (TRS) by July 26, 1993. TRS facilities are equipped with specialized equipment and staffed by communications assistants who relay conversations for people with hearing and/or speech disabilities. On July 20, 1993, the FCC named the National Exchange Carrier Association (NECA) as administrator of the TRS fund. On June 30, 1995, the FCC reappointed NECA as TRS administrator for a four-year term through July 1999 (Third Report and Order, CC Docket 90-571).

TRS funds are collected from all common carriers providing interstate services and distributed monthly to qualified TRS service providers. The annual contribution factor is developed by the FCC every December based upon estimates of the revenue requirements necessary to provide services in the upcoming April 26th through March 26th period. The difference between actual and estimated requirements (i.e., the fund balance) is included in the calculation of the contribution factor for the subsequent 12-month period.

The annual contribution factor approved by the FCC was \$.00033 per each dollar of interstate revenue for the period from April 26, 1996 through March 26, 1997. It was increased to \$.00058 for the April 26, 1997 through March 26, 1998 period and decreased to \$.00039 for the April 26, 1998 through March 26, 1999 period. All factors are determined by the FCC by taking into consideration the projected funding requirements of providing interstate TRS service, changes in the growth of interstate revenues throughout the industry, a safety margin of 10% and any fund surpluses/shortfalls which are carried over from prior years.

Payments to TRS service providers are based on interstate TRS conversation minutes, as submitted by the service providers, multiplied by a rate per minute as calculated by NECA and approved by the FCC. The rate per minute is an average rate between all service providers and is calculated based on the estimated costs to provide interstate TRS service divided by the expected conversation minutes to be provided. The per minute rate was \$1.217 per minute from January 1, 1997 through December 31, 1997. From January 1, 1998 through December 31, 1998, the rate was decreased to \$1.168 per minute.

(2) ACCOUNTING POLICIES:

Cash and Cash Equivalents-

NECA considers all highly liquid securities, purchased with a maturity of three months or less, to be cash equivalents. Interest is credited to the TRS fund when earned and the investment rate averaged 5.55% during fiscal 1998 and 5.46% during fiscal 1997.

Use Of Estimates-

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) ADMINISTRATIVE COSTS:

Administrative costs (in thousands) consist of the following-

	<u>1998</u>	<u>1997</u>
Cost allocation	\$212	\$204
Direct labor costs	86	87
Miscellaneous	32	20
Travel	6	9
Consultants	20	19
	<u>\$356</u>	<u>\$339</u>

NECA administrative costs charged to the TRS fund are allocated in accordance with NECA's Cost Accounting and Procedures Manual ("CAM") filed with and approved by the FCC. NECA annually submits a Statement of Cost Allocation System Compliance to the FCC for which a schedule of costs incurred by category (including TRS) is attached. NECA has independent public accountants review NECA's cost allocation procedures to ensure such procedures are in compliance with the CAM. The latest attestation report issued was dated March 27, 1998 and covers the year ending December 31, 1997.

Costs for personnel assigned to TRS such as salaries, benefits and travel are directly charged to the fund. Common costs are accumulated in defined cost pools and allocated on a monthly basis to the TRS fund using activity based cost drivers as further described in NECA's CAM. These costs include legal, auditing, finance, information systems, facilities, and general overheads.

(4) INCOME TAXES:

These financial statements present the activities of the TRS Fund. The activities of the TRS Fund are not subject to Federal or state income taxes or sales, use, gross receipts or other taxes. As such, no provision for such taxes have been reflected in the accompanying financial statements.

(5) TRS ADVISORY COUNCIL:

An interstate TRS Advisory Council was formed in accordance with FCC rules, to advise NECA on interstate TRS cost recovery matters. The council meets at least twice annually.

According to the Interstate Telecommunications Relay Services Advisory Council Bylaws, the council can be comprised of not fewer than 6 and not more than 12 members. The FCC has ordered that members represent the following groups: persons with hearing and/or speech disabilities, TRS users - voice and TTY, interstate telecommunications service providers, state regulatory representatives, TRS providers and state relay administrators. As of November 25, 1998, the council had 11 members.

(6) PROVIDER PAYMENT SUSPENSION
OF TOLL FREE MINUTES:

NECA made its annual filing to the FCC on October 1, 1996 which covers the funding period from April 1996 to March 1997. A \$9.0 million shortfall in the fund balance was anticipated to result from unanticipated growth in reported demand quantities associated with interstate toll free minutes which providers started reporting in fiscal 1996.

NECA discussed the potential shortfall with both the TRS Advisory Council and the FCC. The Advisory Council recommended that if a shortfall occurred, NECA should temporarily reduce provider payments to the level of available funds until the balance becomes available from future contributions. On December 17, 1996, the FCC issued an order which directed NECA to suspend payments for unprojected toll free minutes related to providers who did not include these minutes in their annual projections sent to NECA during 1995 that were used to support the \$1.379 reimbursement rate for 1996. The suspension began with the January 1997 payments (November 1996 minutes) and ended with the May 1997 payments (March 1997 minutes). In accordance with the FCC order, beginning with the June 1997 payments and continuing until the March 1998 payments, NECA is paying each provider for whom payments were withheld one-tenth of the suspended amount. Since the first two payments were made in fiscal 1997, only \$4,041,547 or 80% of the total suspended amount of \$5,051,934 is included in Payable to TRS Service Providers on the Statement of Assets, Liabilities and Fund Balance at July 31, 1997. The final payment was made in March 1998. Accordingly, no accrual related to the suspended payments is required at July 31, 1998.